

Business Standard

Proxy advisory movement likely to emerge stronger from ITC case

Reaction underlines increasing importance of the industry, says Subramanian of Ingovern

N Sundaresha Subramanian | New Delhi September 07, 2017 Last Updated at 16:55 IST



The

A man talks on his mobile phone as he walks past an ITC office building in Kolkata. Photo: Reuters

fledgling proxy advisory sector is facing its first major challenge with consumer goods major ITC slapping a Rs 1,000-crore defamation suit on Institutional Investor Advisory Services (IiAS). But, individual firms and their consumers -- largely institutional investors -- are confident that the industry would emerge stronger after this episode. There are also calls for the regulators and large institutional investors to support these advisory firms.

While IiAS executives were not available for comment, Shriram Subramanian, founder of Ingovern Research Services, another sebi registered proxy firm, said, "This only shows the increasing influence of proxy advisory firms that companies of the size of ITC are reacting in this manner. Proxy advisory firms are registered and regulated by SEBI and the main function is to put out voting recommendations and that is what IiAS has done. SEBI and institutional investors should come in support and should not allow ITC to muzzle proxy advisory firms in this manner. The court should summarily dismiss the case."

"SEBI, with its increasing focus on corporate governance, also has the powers to suo motu enquire about this with ITC. The government of India through LIC and SUUTI is one of the largest shareholder in ITC and is

responsible for ensuring that the company adheres to higher standards of corporate governance," Subramanian added.

People in the industry said they are not going to be silenced by such attempts and added: "It was a test case and there has to be substance in the allegations. If there is no substance, the courts are going to throw it out."

Law suits and legal proceedings against critical reports are not new for corporate India. While several journalists, analysts and authors have been targets of such law suits and legal notices, which go by the acronym SLAPP (Strategic Lawsuits against public participation), this is the first time it has been filed against a proxy advisory firm. Such suits have had varying results. In an extreme case, an analyst then working for a Canada-based research firm was taken into custody by Gurgaon police on charges that included alleged extortion. A Rs 100-crore suit filed by National Stock Exchange against journalists of MoneyLife magazine backfired after the court ordered the exchange to pay damages of Rs 50 lakh.

Proxy advisory firms issue voting recommendations for shareholders on resolutions put out by companies. It was as part of recommendation on one such resolution concerning the appointment and remuneration of ITC's non-executive chairman Y C Deveshwar that IiAS had made the alleged defamatory statements. In fact, Sebi was instrumental in bringing these companies into existence by making it mandatory for institutions such as mutual funds to vote on resolutions of investee companies after the Satyam Computer debacle. Sebi had then noticed that most large institutions remain dormant hardly voted on resolutions.

Subsequent reforms such as the framework on related party transactions has made the role of proxy advisory firms even more critical. Under the new framework, interested shareholders were not allowed to vote on resolutions involving related party transactions. As proxy firms went about raising these and other corporate governance issues, several instances of institutional shareholders expressing themselves through votes have been reported, most recent being the Raymonds' attempt to sell flats on JK House for throwaway prices, which was averted by shareholders following a proxy firm report. Several large institutions, including foreign portfolio investors, today subscribe to reports of these firms.